STATE OF INDIANA

DEPARTMENT OF LOCAL GOVERNMENT FINANCE

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TO: **Assessing Officials**

FROM: **Barry Wood, Assessment Division Director**

RE: **Personal Property Clarification**

DATE: **May 6, 2016**

On January 8, 2016, the Department of Local Government Finance (the "Department") issued Personal Property Frequently Asked Questions (see http://www.in.gov/dlgf/files/pdf/160107_-_FAQ_-_Personal_Property_2016.pdf). One of the questions (Question #21 – see below), has generated additional debate. It is the Department's interpretation that when a taxpayer uses accelerated depreciation methods such as 150% or 200% declining balance depreciation, the Modified Accelerated Cost Recovery System (MACRS), which is the current tax depreciation system in the United States, be used. Under this system, the capitalized cost (basis) of tangible property is recovered over a specified life by annual deductions for depreciation. The lives are specified broadly in the Internal Revenue Code. When these assets have an accelerated reduction in net book value and are traded in on new assets, they create a nominal value as the tax basis on the new asset. In these instances, FAQ question #22 should apply.

21. The Internal Revenue Service changed the method that trade-ins are handled for federal income tax purposes. Could you tell me what the basis of this asset would be in the following example? A taxpayer purchased a piece of equipment for $70,000. Three years later, the taxpayer traded in the equipment for a more expensive piece of equipment that serves the same purpose. The net book value of the trade-in was $40,000 and the taxpayer paid an additional $50,000 in cash. The bill of sale shows that the dealer gave the taxpayer a significant discount off of the list price of the new equipment. The manufacturer's suggested retail price for the new piece of the equipment was $120,000. The dealer gave a $15,000 discount and allowed a trade-in value of $55,000 which left a balance due of $50,000.
For personal property tax purposes in the State of Indiana, the new piece of equipment has a tax basis of $90,000 (net book value plus cash boot). On the personal property return, the taxpayer should report the basis of the new equipment at the $90,000 amount and not the list price of $120,000.

22. As a follow-up question, what if the taxpayer expensed the asset in the first year?
This is a depreciation expense for federal income tax purposes, so the tax basis would be the value for that asset for Indiana property tax purposes until it is retired through sale, exchange,

scrapped, etc. For example, a $25,000 asset that was fully depreciated in the first year would have a tax basis of $25,000 for Indiana property tax purposes until it was retired.

If you have any questions, please contact your Assessment Division Field Representative or Assessment Division Director, Barry Wood, at Bwood@dlgf.in.gov or (317) 232-3762.